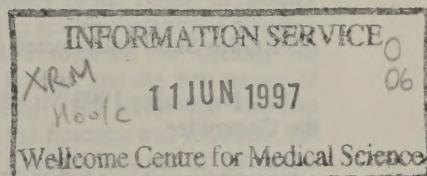


SCIENCE AND TECHNOLOGY COMMITTEE

Second Special Report

The Government's Response to the Science and Technology Committee's First Report, Session 1996-97, The Prior Options Reviews of Public Sector Research Establishments

10833



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The Science and Technology Committee is appointed under Standing Order No 130 to examine the expenditure, administration and policy of the Office of Science and Technology and associated public bodies.

The Committee consists of 11 Members. It has a quorum of three. Unless the House otherwise orders, all Members nominated to the Committee continue to be Members of it for the remainder of the Parliament.

The Committee has power:

- (a) to send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time;
- (b) to appoint specialist advisers either to supply information which is not readily available or to elucidate matters of complexity within the Committee's order of reference;
- (c) to communicate to any other such committee and to the Committee of Public Accounts and to the Deregulation Committee its evidence and any other documents relating to matters of common interest; and
- (d) to meet concurrently with any other such committee for the purposes of deliberating, taking evidence, or considering draft reports.

The following were nominated Members of the Committee on 13 July 1992:

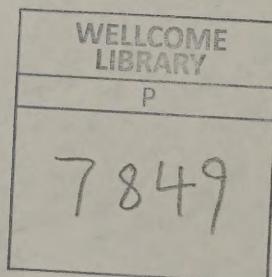
Mr Spencer Batiste	Sir Giles Shaw
Dr Jeremy Bray	Sir Trevor Skeet
Mr Malcolm Bruce	Dr Gavin Strang
Mrs Anne Campbell	Sir Gerard Vaughan
Cheryl Gillan	Dr Alan W Williams
Mr William Powell	

Sir Giles Shaw was elected Chairman on 15 July 1992.

On 9 November 1992 Mr Malcolm Bruce was discharged and Mr Andrew Miller added to the Committee.

On 16 November 1992 Dr Gavin Strang was discharged and Dr Lynne Jones added to the Committee.

On 7 November 1995 Cheryl Gillan and Mr William Powell were discharged and Mr Ian Bruce and Mr Patrick Thompson were added to the Committee.



SECOND SPECIAL REPORT

The Science and Technology Committee has agreed to the following Special Report:

We have received the following memorandum from Ian Taylor MBE MP, the Minister for Science and Technology enclosing the Government response to the First Report from the Science and Technology Committee, Session 1996-97, on The Prior Options Reviews of Public Sector Research Establishments (HC 71-I). We assume that this covers our earlier brief report on the same subject.¹

Memorandum from the Office of Science and Technology

Introduction

1. The Government is grateful to the Science and Technology Committee for producing a further report on this issue. The programme of reviews has now been concluded. This Memorandum addresses the Select Committee's observations, in the light of the published outcome.

Conduct of the reviews

2. The programme of prior options reviews was launched in September 1995 as part of the Government's response² to the Efficiency Scrutiny of Public Sector Research Establishments (PSREs).³ The aim was to complete the bulk of the work by the end of December 1996.

3. All the reviews were guided by the objective of achieving the best value for money for the resources spent. The reviews of individual establishments were undertaken by the parent Department or Research Council, with those establishments working in broadly related fields being reviewed in parallel by inter-departmental steering committees. Steering committees included an independent member from industry or academia as well as parent and customer departments, plus OST, OPS and HM Treasury. Three tranches of reviews were undertaken, with reports completed in March, July and December 1996.

4. Guidance on the conduct of reviews was placed in the Library of the House in January 1996. In accordance with the normal prior options process, the reviews examined whether the functions of the establishments were still required, and considered the options for privatisation, contractorisation, or rationalisation with related bodies, and the best means of management for establishments to be retained in the public sector. The status quo was also considered as an option in each review. In looking at whether the function was required, the review teams addressed the underlying question of the country's scientific needs in that area.

5. Each case was considered on its merits, while having regard to other establishments in the same group. A cross-departmental perspective was important to ensure that reviews addressed the actual or potential relationship between establishments in similar or related fields. A number of technical issues were discussed in a committee of senior officials chaired by the Prime Minister's Efficiency Adviser, Sir Peter Levene.

Outcomes

6. The Government announced decisions on the outstanding reviews on 29 January 1997. A full list of the outcomes for all 38 establishments⁴ reviewed is at Annex A.

¹Fifth Report from the Science and Technology Committee, Session 1995-96, *The Prior Options Reviews of Public Sector Research Establishments*, HC 643.

²Public Sector Research Establishments: Government response to the Multi-Departmental Scrutiny of Public Sector Research Establishments, Cm 2991, HMSO, September 1995.

³Multi-Departmental Scrutiny of Public Sector Research Establishments, HMSO, June 1994.

⁴A total of 37 establishments was originally covered by this programme of reviews. One of these, the Radiobiology Unit, has subsequently been treated in 2 parts: the Mammalian Genetics Unit and the Radiation and Genome Stability Unit.

7. In its response to the original Efficiency Scrutiny, the Government stated its policy "to provide only those functions which are both necessary and best carried out in the public sector"⁵; this remains the case. As annex A indicates, the majority of establishments covered under the programme of prior options reviews will remain in the public sector. However, a range of measures is being pursued to improve their management and customer focus. Some examples include:

- the Biotechnology and Biological Sciences Research Council (BBSRC) under the oversight of the Director-General of Research Councils (DGRC) will be expected to continue to look for ways of improving its establishments' value for money and specifically to explore the scope for improving control of central costs and for contracting out support services;
- the Natural Environment Research Council (NERC) under the oversight of the DGRC will pursue opportunities for rationalisation and restructuring identified by the reviews and to build on its arm's length relationship with the establishments and improve their financial and management systems;
- MAFF, in respect of R&D work placed with the Veterinary Laboratories Agency, will be setting targets for increasing competition, for enlarging the programme of market testing of non-R&D work, and will be looking at the scope for rationalisation of some areas of work with other PSREs.

8. More generally, the Efficiency Scrutiny has led to a major shift towards greater private sector management and commercial discipline among the establishments concerned. The exercise as a whole covered bodies with an annual turnover of some £1.3bn and a total staff of 31,000. These included organisations such as AEA Technology, the National Physical Laboratory and the Laboratory of the Government Chemist on which decisions were reached in advance of the current prior options programme. Taking account of the most recent announcements, establishments representing over half this annual turnover and with some 14,000 staff will become subject to private sector ownership or operation. Amongst those bodies remaining in the public sector, a significant amount of work will be market tested or contracted out.

Openness

9. The Committee comments that it would have favoured greater transparency in the review process. The Government sought to make the whole exercise as open as possible. The Committee notes some of the steps taken to achieve this, which included issuing the guidelines for the reviews, and the opportunities for input to individual reviews by interested parties. The steering group reports themselves constituted advice to Ministers which would not normally be published. As in previous cases, however, memoranda on the rationale for the decisions announced on 29 January will be placed in the Library of the House as soon as possible.

Value for money

10. The taxpayer contributes some £690 million each year to sustain the current work of these establishments, more than 10% of the total government expenditure on research and development. The Government has a duty to ensure that these substantial resources are used to best effect and rejects any suggestion that this is inimical to good science. Although the Government is committed to a strong UK Science Base, it is of no benefit to science if resources are wasted through inefficient management structures or outmoded practices.

11. The Government notes the concern that resources have been unprofitably diverted to the programme of reviews. However, the total estimated cost of carrying out this programme of reviews is small compared to the sum devoted to the establishments themselves — significantly

⁵*Public Sector Research Establishments: Government response to the Multi-Departmental Scrutiny of Public Sector Research Establishments*, Cm 2991, p.6.

less than 1%. The Government believes that to achieve further efficiency gains, which can only benefit the Science Base, this is a worthwhile investment.

12. One example of the benefits arising from the original Efficiency Scrutiny is provided by the DTI's National Physical Laboratory (NPL), which is now operated under contract by SERCO plc. NPL has made savings through better operating efficiency, and is able to carry out more research for the same amount of money. 85 new staff have been recruited, 48 of them scientists. The laboratory has more commercial freedom to exploit its unique technical assets and capabilities.

13. Nor is this concern for efficiency and effectiveness limited to Britain. Other countries are also refocusing the work of their public sector research bodies. The US Government is looking at NASA and the energy and health areas, for example, while the Australian federal research organisation CSIRO is reforming its institutes. The Office of Science and Technology has received a number of delegations from abroad, keen to learn how the UK has tackled these issues.

Research Council Institutes

14. The Select Committee made a number of comments about the appropriateness of including Research Council establishments in these reviews.

15. The Science and Technology Act 1965, which defines the relationship between the Government and the Research Councils, states that:

"The Secretary of State may, out of monies provided by Parliament, pay to any of the Research Councils such sums in respect of the expenses of the Council as he may with the consent of the Treasury determine, and so far as relates to the use and expenditure of sums so paid the Council shall act in accordance with such directions as may from time to time be given to it by the Secretary of State."

16. In addition, the 1993 White Paper *Realising our Potential* gave the Director General of Research Councils specific responsibilities for assisting Ministers in ensuring the successful and high quality operation of the Research Councils and for making sure that the Councils are making effective and efficient use of the funds voted by Parliament. Leaving it entirely to the Research Councils to organise themselves and their Institutes as they saw fit would not be appropriate or consistent with either the Science and Technology Act or the remit set by the White Paper.

17. Research Council Institutes account for some £220 million annually of public funds from the Research Councils and from other Government Departments and public bodies. The Government is clearly against any unnecessary duplication of reviews; but it has a duty to ensure that these funds are and continue to be used to best effect. The Natural Environment Research Council noted in evidence to the Select Committee that periodic reviews "provide a valuable insight into the structure and operation of establishments, and challenge internal thinking" and give "a further opportunity to assess the customer-contractor relationship."⁶ Properly followed up, these new attitudes themselves justify the review process.

18. The prior options programme deliberately examined a broad range of institutions, to be satisfied about the clarity of application of mission statements, and to take account of the links and potential scope for greater collaboration between them. Issues such as the need to protect impartiality and the quality of scientific advice were fully taken into account. Those involved in conducting the reviews were well aware of the diversity of institutions being studied and the distinctions between the missions, for example, of a Research Council Institute and a Government Research Establishment.

⁶House of Commons Science and Technology, First Report, *The Prior Options Reviews of Public Sector Research Establishments*, Volume II, Minutes of Evidence and Appendices, p.51.

Timing

19. The Committee indicated their preference for a system of regular reviews once every 5 years. This reflects current arrangements. The Government accepted in its response to the Efficiency Scrutiny, that the prior options process would be adapted and extended to include all public sector research establishments, including Research Council establishments.

20. The normal cycle for prior options reviews is every five years. However, the Government has a continuous requirement to assess performance and structure against evolving objectives, and reviews may in some circumstances be necessary within the 5 year period. It is intended to maintain this standard arrangement for the establishments reviewed in 1996, subject to progress with the follow-up measures agreed by Ministers. As previously noted these include a range of measures to improve the management and customer focus of the establishments, as set out in the individual announcements.

Conclusion

21. The Government has noted the Committee's concluding comments about the scale and conduct of this exercise. The argument for considering a broad range of establishments was that the often complex pattern of links between establishments could be taken into account. The Government does not accept the Committee's view that the prior options reviews have been unsatisfactorily handled.

22. The Committee acknowledges the complexity of the issues involved. A structure was established which enabled these to be considered with care by interested departments and Research Councils on a case by case basis. Each steering committee had independent representation. When faced with issues which required further investigation — for example the treatment of pension liabilities — the Government took steps to ensure they were addressed in sufficient depth. At the same time, it sought to ensure that each stage of consideration was completed as rapidly as possible.

23. In its original announcement of the reviews, the Government stated its intention that the bulk of the work should be completed by December 1996. The individual steering group reports from all three tranches of reviews were delivered on time in March, July and December. The final conclusions of the exercise were announced within a month of receipt of the last reports, having undergone collective consideration by Ministers. The Government recognised very well the need to keep disruption and uncertainty in the establishments to a minimum; but it was important to achieve right answers rather than quick ones.

24. The objective was to ensure that the establishments should be owned and managed as effectively and efficiently as possible, whilst ensuring a sound scientific base for the longer term. The taxpayer can expect no less. The resources devoted to the prior options exercise as a whole were very small compared to the total annual expenditure through these establishments. In the light of the decisions which have now been announced, their staff can proceed with their work with renewed confidence. Far from damaging the Science Base, the Government believes the result will be to strengthen it.

Office of Science and Technology
10 February 1997

Public Sector Research Establishments covered in Prior Options Reviews
Annex A

Establishment	Parent or sponsor department/research council	Result of Review
ADAS	MAFF Executive Agency	To be privatised in 1997.
Babraham Institute	BBSRC-funded Institute	To remain in the public sector. A number of efficiency improvements to be delivered.
British Geological Survey	NERC Establishment	To remain in public sector. NERC to clarify customer/contractor relationship and introduce service level agreements.
Building Research Establishment	DOE Executive Agency	To be privatised in 1997.
Centre for Coastal and Marine Science	NERC Establishment	To remain in public sector. NERC to clarify customer/contractor relationship and introduce service level agreements.
Centre for Ecology and Hydrology	NERC Establishment	To remain in public sector. NERC to clarify customer/contractor relationship and introduce service level agreements.
Central Laboratory for the Research Councils	OST-sponsored NDPB	To remain in public sector, with a number of performance improvements.
Central Science Laboratory	MAFF Executive Agency	To remain as Executive Agency
Directorate of Fisheries Research	MAFF Departmental Laboratory	To be established as a new Executive Agency - 1 April 1997.
Dunn Nutrition Unit	MRC Unit	MRC to close and reconstitute from zero base when transferred to new site; also to rationalise with existing MRC and university services
Fisheries Research Services	SOAEFD Departmental Laboratory	To be established as a new Executive Agency - 1 April 1997.
Forestry Commission Research Division	Part of the Forestry Commission	To be established as a new Executive Agency - 1 April 1997.
Hannah Research Institute	SOAEFD-funded NDPB	To remain in public sector as Company Limited by Guarantee (CLG) subject to improvements in efficiency and effectiveness.

Establishment	Parent or sponsor department/research councils	Result of Review
Health and Safety Laboratory	Pseudo-agency of HSE (a DOE NDPB)	To remain an Executive Agency.
Horticulture Research International	MAFF-funded NDPB	To remain in public sector - subject to improving commercial viability.
Institute for Animal Health	BBSRC-funded Institute	To remain in the public sector. A number of efficiency improvements to be delivered.
Institute of Arable Crops Research	BBSRC-funded Institute	To remain in the public sector. A number of efficiency improvements to be delivered.
Institute of Food Research	BBSRC-funded Institute	To remain in the public sector. A number of efficiency improvements to be delivered.
Institute of Grassland and Environmental Research	BBSRC-funded Institute	To remain in the public sector. A number of efficiency improvements to be delivered.
John Innes Centre	BBSRC-funded Institute	To remain in the public sector. A number of efficiency improvements to be delivered.
Macaulay Land Use Research Institute	SOAEFD-funded NDPB	To remain in public sector as CLG subject to improvements in efficiency and effectiveness.
Moredun Research Institute	SOAEFD-funded NDPB	To remain in public sector as CLG subject to improvements in efficiency and effectiveness.
National Biological Standards Board	DH-funded NDPB	To remain as Department of Health NDPB subject to setting up new systems to manage their research programmes and a review of efficiency to be conducted by external consultants.
National Radiological Protection Board	DH-funded NDPB	To remain as Department of Health NDPB subject to setting up new systems to manage their research programmes, a review of efficiency to be conducted by external consultants and action to strengthen the board.
National Weights and Measures Laboratory	DTI Executive Agency	To be retained as Executive Agency.

Establishment	Parent or sponsor department/research councils	Result of Review
Police Scientific Development Branch	Home Office	To remain as part of Home Office.
Public Health Laboratory Service	DH-funded NDPB	To remain as Department of Health NDPB subject to setting up new systems to manage their research programmes and a review of efficiency to be conducted by external consultants.
Radiobiological Mechanisms Unit (comprising the Mammalian Genetics United and the Radiation and Genome Stability Unit)	MRC Unit	Through contract management or market testing, reduce MRC provision of research services.
Reproductive Biology Unit	MRC Unit	To remain under MRC management, closed and reconstituted from zero base. Boundaries with University of Edinburgh to be redrawn.
Roslin Institute	BBSRC-funded Institute	To remain in public sector. A number of efficiency improvements to be delivered.
Rowett Research Institute	SOAEFD-funded NDPB	To remain in public sector as CLG subject to improvements in efficiency and effectiveness.
Scottish Agricultural Science Agency	SOAEFD Executive Agency	To remain as Executive Agency.
Scottish Crop Research Institute	SOAEFD-funded NDPB	To remain in public sector as CLG subject to improvements in efficiency and effectiveness.
Silsoe Research Institute	BBSRC-funded Institute	To remain in public sector. A number of efficiency improvements to be delivered.
Toxicology Unit	MRC Unit	To remain under MRC direct management subject to improving efficiency and performance.
Veterinary Laboratories Agency	MAFF Executive Agency	To remain as Executive Agency. Proportion of MAFF research awarded competitively to be increased.
Virology Unit	MRC Unit	To transfer to private sector (Glasgow University) - subject to resolution of practical issues.

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